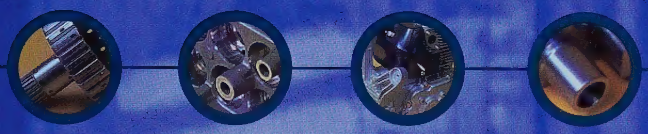
Linamar Corporation

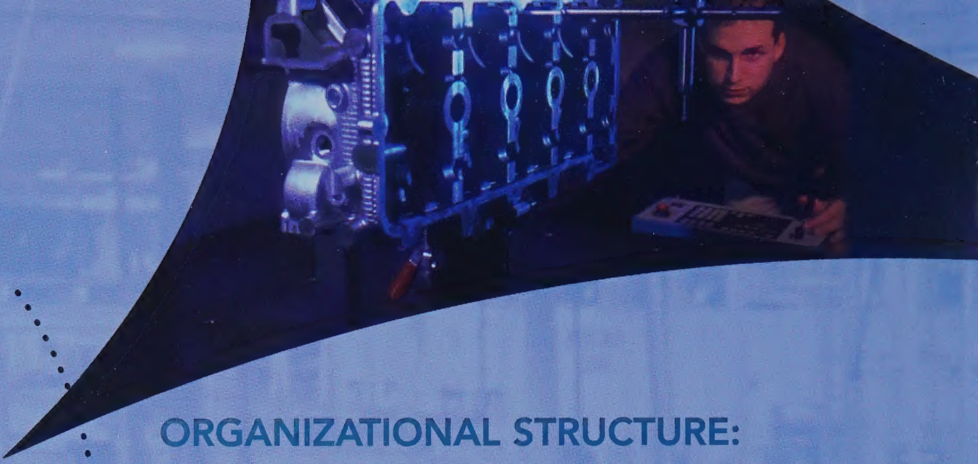
GLOBAL SYSTEMS INTEGRATION

Linamar



a BALANCED APPROACH

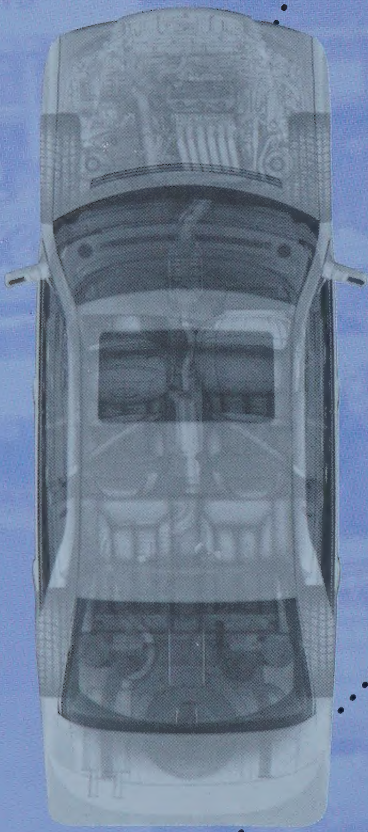
annual 1998 report

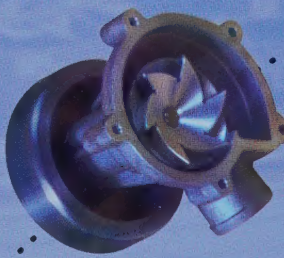


ORGANIZATIONAL STRUCTURE:

One of the main ingredients in Linamar's success has been the drive of its lean, hands-on entrepreneurial management team. Operating through twenty-eight autonomous companies, each with its own cross-functional management team, Linamar has in excess of 2.5 million square feet of manufacturing floor space and employs over 8,000 people worldwide. The Company's capital resources and decentralized organizational structure allows the ability to expand any of Linamar's current companies, or build a facility to suit a customer's needs, quickly and efficiently.

Linamar's headquarters are located in Guelph, Ontario, along with a significant percentage of the Company's manufacturing capacity. This places considerable capacity within a 200-mile radius of Detroit, Michigan, the core of the North American automotive industry. The Company's European manufacturing capacity operated by its Mezögép Rt. subsidiary is located in Orosháza and Békéscsaba, Hungary. Hungary is centrally located in Europe, making it ideally situated for penetration into European markets. The Company's Mexican manufacturing capacity is located in Saltillo and Torréon, Mexico; ideally situated to penetrate into the Mexican and South American markets.





QUALITY:

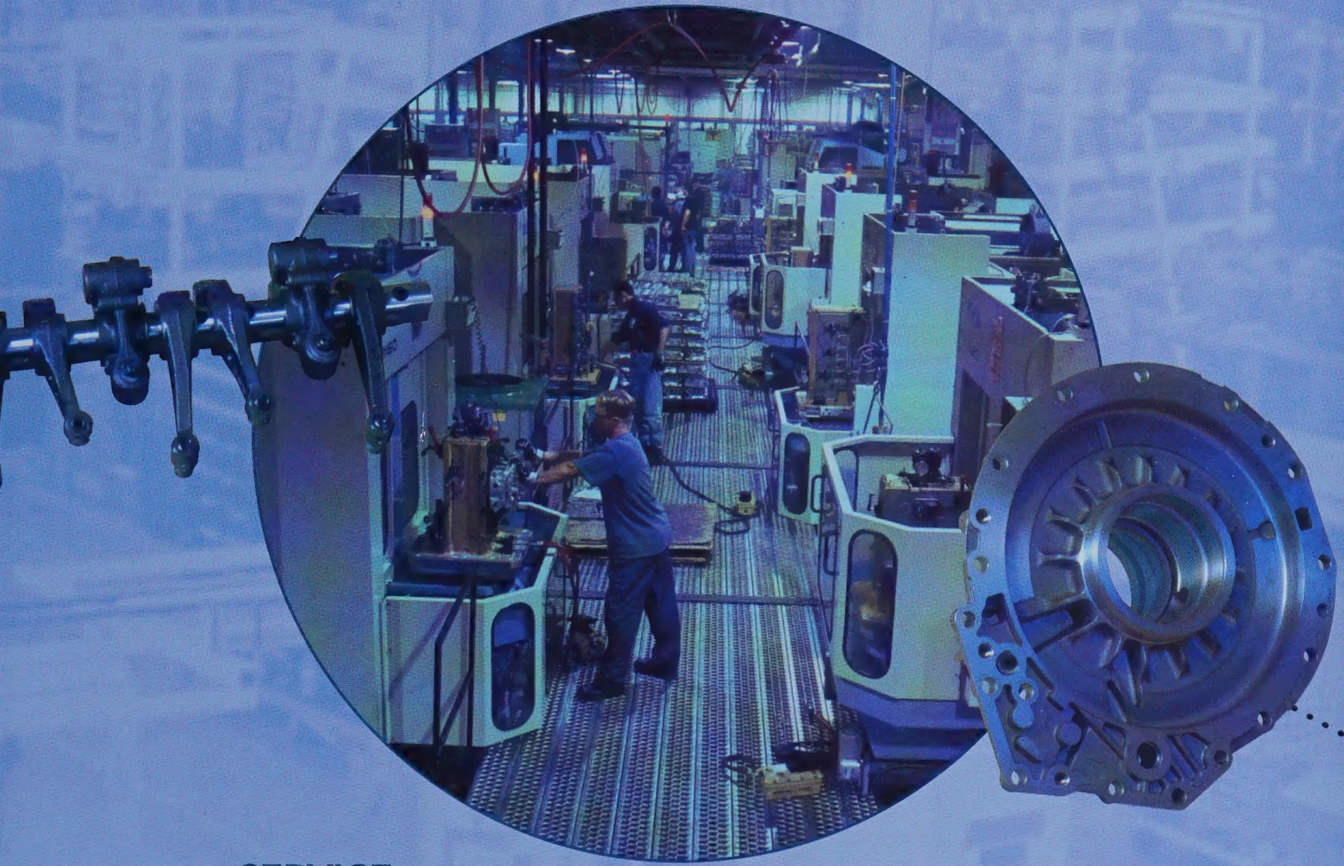
Linamar's dedication to organizational quality leads it to strive for the highest quality in everything that it does. This is reflected in the number of prestigious designations that the Linamar companies are honoured to have received over the years. In 1991, Linamar received the Canadian Award for Business Excellence (CABE) under the Quality category. Several Linamar companies have also been distinguished with Supplier awards from various customers, including Ford Motor Company, General Motors, Cummins and Xerox. The Ontario Government has also honoured one of Linamar's companies with an award for its waste reduction initiatives. Currently sixteen facilities are ISO-9002 registered and QS-9000 registered – with the remaining facilities scheduled to be registered shortly.

It is Linamar's policy to provide product, services and processes that will meet or exceed its customers' quality requirements and expectations. Accordingly, the implementation and management of effective quality operations systems is a key building block at Linamar and an absolute necessity to ensure that customer quality and delivery requirements are maintained. Such systems include extensive Statistical Process Control, Dimensional Control Planning, Failure Mode and Effect Analysis and personnel training.

TECHNOLOGY:

Linamar takes pride in its innovative approach to solving its customers' most demanding manufacturing problems. Linamar has a very strong technical orientation, both in its people and its equipment.

Twenty-five percent of Linamar's workforce is of a technical orientation, allowing Linamar to be highly responsive to customer needs and concerns. Linamar's commitment to leading-edge technology in the close tolerance sophisticated manufacturing field, funded by an aggressive capital expenditure program, ensures that the Company is taking advantage of highly efficient, highly capable equipment. Doing so allows the Company to provide products of the highest quality for the lowest cost. New technologies and resources developed at any one Linamar Company are shared with all companies, thus keeping the entire Corporation on the leading edge of technology.



SERVICE:

Linamar is committed to providing total satisfaction to its customers, its employees and to its community. The Company ensures dependable and consistent sales service to its customers and human resource services to its employees, by centralized coordination of the Sales, Marketing & Product Development, Human Resources and Finance functions at the corporate level. This dedication to its customers and employees is an essential ingredient in the Company's strive towards Total Customer Satisfaction.

Linamar's Transportation division is another example of the Company's commitment to complete Customer Satisfaction. Its fleet of tractor trailers ensures timely, safe and efficient delivery of customer products across North America. Utilization of Linamar's in-house Customs Department guarantees smooth, efficient deliveries across all international borders.

In striving to achieve our customers' most demanding needs in all areas of the organization, Linamar promises Total Customer Satisfaction, ensuring both continued success for the customer and the Company in the years to come.

THE COMPANY

Linamar Corporation is a global manufacturer of precision-machined components, assemblies and castings primarily for the automotive industry.

The Company is focussed on maintaining the low cost, high quality, on-time reputation for manufacturing that has facilitated its growth. With sales revenue for the year ended December 31, 1998 at $998.3 million, Linamar has come a long way from the one-man operation started by the current Chairman of the Board and CEO, Frank Hasenfratz, in the basement of his home in Ariss, Ontario 33 years ago. In 1986, Mr. Hasenfratz further ensured the success and growth of Linamar by taking the Company public. Linamar has successfully traded on The Toronto Stock Exchange since that time.

Though the Company was founded on machining for the defense, aerospace and automotive industries, a decision was made to focus primarily on the automotive sector in the mid 1980's. As the automotive industry's requirements for high precision machining grew during the 1980's, Linamar became an established supplier. In 1997, the automotive industry accounted for over 90% of the Company's total sales.

The Company's expertise in the machining and assembly of various automotive systems and components – engine, transmission, drivelines, steering, suspension and brake components – its solid, lean, entrepreneurial management organizational structure and its dedication to leading-edge technology are all key ingredients in what makes Linamar so successful.

KEY 1998 EVENTS

- 1998 saw the expansion into the United States with acquisitions in Saginaw, Michigan and Florence, Kentucky.
- Linamar also expanded its local operations to nineteen facilities by adding two new facilities in Guelph.
- Major investments were made in capital equipment throughout the year to complement this growth.
- With expansion and acquisitions the Company saw a significant increase in its highly-skilled workforce.
- Linamar made strategic moves into the 5C component market with the purchase from Renault of Industrias de Linamar in Mexico. The operation machines cylinder heads, camshafts, crank cases, crank shafts and has the ability to machine connecting rods. The facility also assembles and tests complete engines. This acquisition complements the Corporation's current 5C operations based in Kentucky and expands it to include all components and engine assembly.

Linamar

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ANNUAL MEETING

The Company's annual meeting will take place at the River Run Centre, 35 Woolwich Street, Guelph, Ontario - Thursday, April 29th, 1999 at 6:00 p.m.

OFFICERS

Frank J. Hasenfratz
Chairman & CEO

Linda S. Hasenfratz
Chief Operating Officer

W. George Sims
Chief Financial Officer & Treasurer

Michael Annable
Director of Human Resources

Mark Stoddart
Director of Sales, Marketing & Product Development

Nick Efthimakis
Group Vice President

Jim Jarrell
Group Vice President

Ted McGregor
Group Vice President

Walter Stachnyk
Group Vice President

DIRECTORS

Frank J. Hasenfratz	*Chairman of the Board & Chief Executive Officer* *Linamar Corporation*
Linda S. Hasenfratz	*Chief Operating Officer* *Linamar Corporation*
Hugh Guthrie †*	*Partner* *Hungerford, Guthrie & Berry, (Barristers and Solicitors)* *Guelph, Ontario*
William J. Harrison †*	*President & Chief Executive Officer* *Lift Technologies Inc.*
David Buehlow †*	*Retired Partner of PricewaterhouseCoopers LLP*
John Jarrell	*Retired General Motors Executive*
Robert Wilson	*Retired Automotive Executive (will be retiring at the next Annual Shareholders' Meeting)*

† Audit Committee

* Human Resources and Corporate Governance Committee

The report on Corporate Governance can be found in the Management Information Circular.

AUDITORS, TRANSFER AGENT & REGISTRAR

PricewaterhouseCoopers LLP, Chartered Accountants, Kitchener, Ontario are the auditors of Linamar Corporation. The transfer agent and registrar for the Common Shares of the Company is Montreal Trust at its principal offices in Toronto.

SHARES LISTED

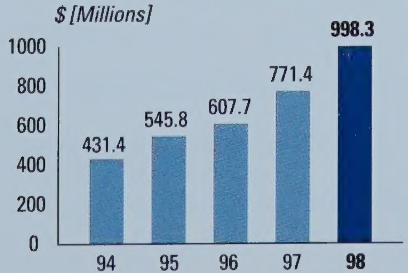
Toronto Stock Exchange trading under LNR

(millions of dollars, except share information)

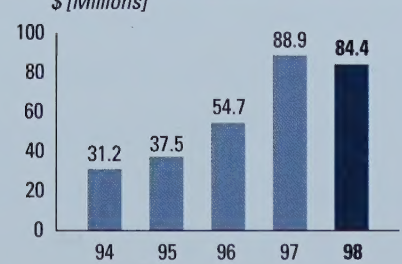
	Years Ended December 31 1998	1997	1996	1995	1994
Statement of Earnings					
Sales	**$ 998.3**	$ 771.4	$ 607.7	$ 545.8	$ 431.4
Operating Earnings	**127.7**	134.1	86.0	58.7	48.4
Net Earnings	**84.4**	108.4	61.6	37.5	31.2
Net Earnings Excluding Non-Recurring Items	**$ 84.4**	$ 88.9	$ 54.7	$ 37.5	$ 31.2
Share Information					
Net Earnings Per Share	**$ 1.20**	$ 1.58*	$ 0.92*	$ 0.57*	$ 0.48*
Net Earnings Per Share Excluding Non-Recurring Items	**$ 1.20**	$ 1.30*	$ 0.82*	$ 0.57*	$ 0.48*
Weighted Average Number of Common Shares Outstanding	**70,383,476**	68,494,662*	66,969,276*	66,140,007*	64,758,912*
Market Price TSE - High	**$ 33.50**	$ 30.77*	$ 14.67*	$ 8.00*	$ 8.33*
- Low	**19.25**	14.17*	6.83*	4.90*	5.17*
- Close	**$ 26.00**	$ 27.67*	$ 14.67*	$ 7.67*	$ 6.47*
Financial Position					
Total Assets	**$ 669.6**	$ 531.9	$ 364.4	$ 330.0	$ 250.7
Capital Assets	**400.2**	242.6	204.5	165.6	125.3
Long-Term Debt	**5.8**	8.4	18.1	28.0	23.7
Shareholders' Equity	**$ 423.3**	$ 346.6	$ 240.7	$ 185.0	$ 152.8
Other Financial Information					
Cash from Operating Activities	**$ 67.6**	$ 146.9	$ 128.5	$ 38.4	$ 53.7
Payments for Capital Assets	**171.2**	88.4	89.5	54.1	52.8
Amortization	**58.5**	49.4	40.5	30.1	25.1
Working Capital	**$ 71.3**	$ 140.2	$ 52.5	$ 41.1	$ 40.3

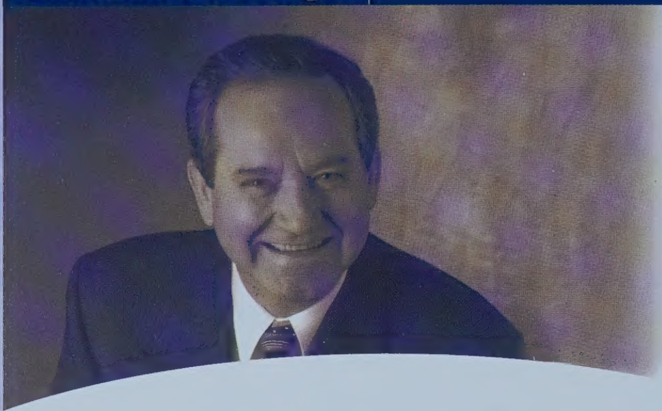
* Reflects the 3 for 1 stock split of May 1998

Sales
$ [Millions]



Net Earnings Excluding Non-Recurring Items
$ [Millions]





1998 represents another excellent year of growth for Linamar, with sales and net earnings of $998.3 million and $84.4 million respectively.

In many ways, 1998 has served to lay the foundation for Linamar's continued growth. 1998 saw the expansion of the Corporation's capabilities to include automotive engine assembly and grey and ductile iron castings as well as expansion of core component manufacturing capabilities. The new facilities - three greenfielding operations and four acquisitions - bring Linamar's worldwide total to twenty-eight operating facilities.

Linamar remains focused on maintaining a competitive advantage in a rapidly consolidating industry through leverage of our technical expertise and our dedication to low cost high quality on time production. Sales growth of fifteen to twenty percent annually will continue to be focused on production of precision-machined components, assemblies and systems for the global automotive and related industries. Outsourcing of such programs continues to be an area of expansion for the automotive industry; one of which Linamar is uniquely positioned to take advantage. Few companies have Linamar's breadth of expertise in precision component manufacturing, with experience in a wide range of engine, transmission, brake and steering components and systems. An excellent example of such is Linamar's experience in manufacturing the "5C" engine components – cylinder heads, crankshafts, camshafts, crankcases and connecting rods. Traditionally manufactured in-house by the automotive OEM's, outsourcing of 5C component production is a rapidly emerging market quantified at more than US$20 billion worldwide. Early entrants in this market, in which Linamar has already secured several significant contracts, are expected to secure the majority of this market share. Linamar's recent acquisition of Renault's Mexican engine assembly facility also serves to position us well for the strong penetration in this market.

A focus on 5C component manufacturing also fits well with Linamar's marketing strategy of increasing content per vehicle through concentration on highly

engineered components of long life span for a variety of vehicle platforms. Several factors support the rationale for this strategy.

First, increasing content per vehicle yearly through manufacture of more and more different machined components, assemblies and systems means continued sales growth regardless of market fluctuation. With a high percentage of these types of programs still being manufactured by the OEMs themselves, opportunity for such growth is significant, particularly in light of OEM initiatives to cut costs through increased outsourcing. A key for Linamar to content per-vehicle growth is continued integration – both backwards into raw material production and forwards into assemblies. Linamar is actively pursuing such integration with more than forty percent of current sales representing assemblies. In fact, *Global Systems Integration*, with full management of a sub-supply base, is rapidly becoming a reality for Linamar.

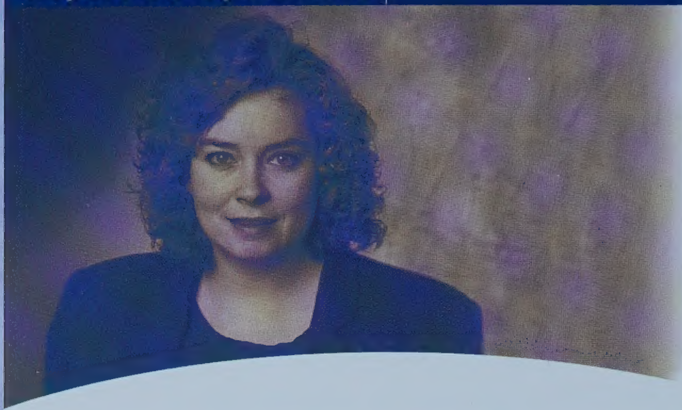
Secondly, concentration on highly-engineering components redesigned on an infrequent basis (10 – 12 years) translates to opportunities for long term contracts. Long term contracts offer excellent sales visibility, opportunity for continuous improvement and enhanced profitability.

Finally, focusing growth across a wide range of platforms offers protection from sales fluctuations related to model demand. As demand decreases for a particular model it is increasing for another – production for both platforms allows for a flattening of these demand peaks and valleys.

Attainment of targeted growth levels will continue to be focused on through a combination of greenfielding and acquisition. Acquisitions will be selected to support the Company's growth strategies and provide a good fit with our culture and management philosophies. Small, well-run companies requiring a capital influx to support growth within established guidelines will be the right partners for Linamar.

With the building blocks for growth and strong expansion laid throughout the year – employee expertise, additional square footage and strategic program acquisition – Linamar is well poised for market penetration in this exciting, expanding industry in the coming years.

Frank J. Hasenfratz,
Chairman of the Board & Chief Executive Officer



Linda S. Hasenfratz,
Chief Operating Officer

1998 has been an excellent year for Linamar's global facility clusters. Operationally, we have remained cognizant of the basic elements of our success to date. Our autonomous profit centres of approximately 300 employees and 100,000 square feet are still run by aggressive, entrepreneurial, cross functional management teams focused on balancing customer satisfaction, employee satisfaction and financial satisfaction. Clustering these facilities into a tight geographic area allows the facilities to enjoy the economies of scale of a large company while maintaining the personalized customer and employee treatment of a small one.

Our global facility clusters have evolved significantly in 1998. We now have two Mexican facilities in the Saltillo/Torréon area well positioned to penetrate the expanding Mexican and South American markets. Hungary, now with four plants, is similarly poised to serve the European market – an area of significant activity in recent months. Our Guelph cluster is now comprised of eighteen facilities, exhibiting strong growth in serving the Canadian and U.S. markets. 1998 also saw the addition of two U.S. locations in Saginaw, Michigan and Florence, Kentucky, which offer potential for future cluster sites. Linamar's unique approach to globalization has allowed us to satisfy customer needs worldwide while maintaining strong pools of technical resources. We have also achieved globalization without resulting in excess capacity or under-utilization of support functions.

In fact, minimization of corporate overhead and a lean management structure are key drivers behind Linamar's strive for continuous improvement. For example, facility clusters will use stakeholder committees of facility personnel to address company wide concerns, i.e. supplier quality management, rather than establishing a corporate department. Doing so ensures that the decision-makers are the people living with the decision, a very effective management technique.

PRECISION MACHINING

Strong growth in 1998 and forecast for future years has necessitated a focus in the company on strengthening the depth of our organizational structure and human resources. This has been achieved in several ways. First, establishment of a pool of highly skilled people critically needed to launch new programs quickly and effectively is being achieved through the creation of a low volume production facility. Maintenance of a highly technical workforce is a key competitive advantage for Linamar. This facility, also a profit centre, experiences frequent setups and necessitates utilization of highly skilled people. It is an excellent training ground for new machinist apprentices not formerly available in our existing high volume repetitive production facilities. Machinists are developed at this facility for transfer to new facilities or to backfill positions of individuals promoted in existing facilities. This program has filled a critical need for skilled people, a commodity in short supply the world over.

Steering knuckle

Front & rear steering knuckles

Wheel hub

Rear differential case

Front differential case

Front input flange

Rear input flange

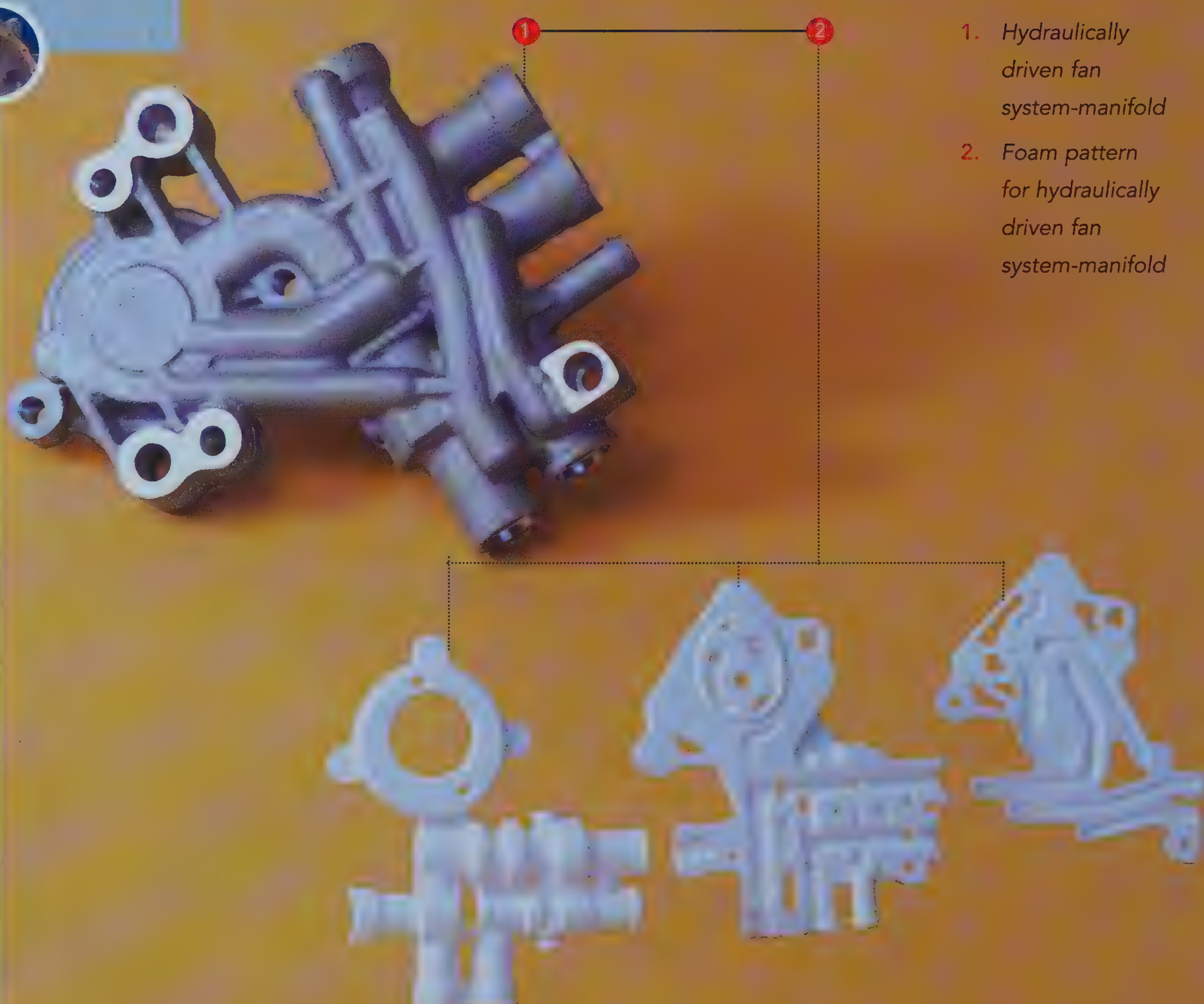
Front differential cross pin

9. *Steering housing*

Secondly, the Company's acquisition strategy has served to provide the organization with teams of people uniquely skilled in markets targeted by the Corporation. Industrias de Linamar for instance, recently acquired from Renault, boasts a team of individuals with excellent capabilities in the manufacture of 5C components, engine assembly and engine testing. The people of Industrias de Linamar are its most valuable asset!

Finally, several training programs have been established to develop the expertise of our employees, including a comprehensive program management course, an area key to customer satisfaction. Linamar is dedicated to employee involvement and satisfaction – we have a highly motivated workforce focused on productivity. With a total lost time per employee per year of just 4.81 days (1.85%

PRECISION MACHINING



1. *Hydraulically driven fan system-manifold*
2. *Foam pattern for hydraulically driven fan system-manifold*

of productive hours) versus a national average of 9.1 days, our employees are clearly dedicated to growing our company and are an integral part of such. This is another key competitive advantage for Linamar.

Financially, sales for the year reached $998.3 million, an increase of $226.9 million or 29.4% over 1997, slightly in excess of our goal of fifteen to twenty percent growth. Operating earnings exclusive of non-recurring items decreased from $134.1 million in 1997 to $127.7 million in 1998. A decrease in the frequency of consigned material contracts served to increase our material cost of sales and accordingly push margins back from the unusually high levels experienced in recent years. This combined with significant start up activity in 1998 has resulted in net margins of eight to nine percent, a level unrivalled in the industry and expected to be sustainable in the short-term. Net cash generated from operating activities was $67.6 million, compared to the $146.9 million generated in 1997. Cash generated from operations was $150.9 million. Capital expenditures in 1998 were $171.2 million, a significant increase over the prior year. Other items using cash included acquisitions made throughout the year as well as participation in a stock buy back. Accordingly, Linamar has made good use of excess cash balances under-utilized at the end of 1997, ending 1998 with a net bank advance of $21.0 million. Expenditures were made carefully with a return on investment goal of twenty percent the minimum target. Annual return on average shareholders' equity was 21.9% percent for 1998, the sixth straight year we have exceeded this goal.

1999 promises to be a rewarding year for Linamar as we reap the benefits from actions taken in 1998. Linamar is poised strongly to finish this millenium and enter the next very successfully.

Linda S. Hasenfratz,
Chief Operating Officer

Management's Responsibility for Consolidated Financial Statements

The management of Linamar Corporation is responsible for the preparation of all information included in this annual report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and neccessarily include some amounts that are based on management's best estimates and judgement. Financial information included elsewhere in this annual report is consistent with that in the consolidated financial statements.

Management maintains a system of internal accounting controls to provide reasonable assurance that the consolidated financial statements are accurate and reliable and that the assets are safeguarded.

The Company's external auditors, appointed by the shareholders, have prepared their report which outlines the scope of their examination and expresses their opinion on the consolidated financial statements.

The Board of Directors, through its Audit Committee, is responsible for assuring that management fulfills its financial reporting responsibilities. The Audit Committee is composed of independent directors who are not employees of the Company. The Audit Committee meets with management and with the auditors to discuss accounting policy, auditing and financial reporting matters. The Committee reports its findings to the Board of Directors for their consideration in reviewing and approving the consolidated financial statements for issurance to the shareholders.

Frank J. Hasenfratz
Chief Executive Officer

Linda S. Hasenfratz
Chief Operating Officer

February 8, 1999

Auditors' Report to the Shareholders of Linamar Corporation

We have audited the consolidated balance sheets of **Linamar Corporation** as at December 31, 1998 and December 31, 1997 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1998 and December 31, 1997 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Kitchener, ON
February 8, 1999

As at December 31, 1998 [in thousands of dollars]

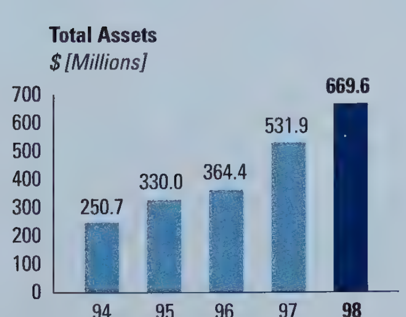
	1998	1997
Assets		
Current Assets		
Cash and short-term investments	$ 8,261	$ 109,750
Accounts receivable	163,102	109,799
Inventories *[note 4]*	91,998	67,688
Prepaid expenses	1,155	952
Other assets	862	-
Income taxes recoverable	3,194	-
	268,572	288,189
Investment in Preference Shares, at cost	914	1,143
Capital Assets *[notes 5 and 6]*	400,155	242,594
	$ 669,641	$ 531,926
Liabilities		
Current Liabilities		
Bank advances	$ 29,214	$ -
Accounts payable and accrued liabilities	161,485	128,549
Income taxes	-	14,967
Current portion of long-term debt *[note 6]*	2,761	2,029
Advance payments from customers	3,840	2,470
	197,300	148,015
Accounts Payable due in 2000	5,840	-
Long-Term Debt *[note 6]*	3,024	6,358
Future Income Taxes	16,080	11,322
Non-Controlling Interests	24,107	19,645
	246,351	185,340
Contingent Liabilities *[note 9]*		
Shareholders' Equity		
Capital Stock *[note 7]*	81,669	71,119
Retained Earnings	341,621	275,467
	423,290	346,586
	$ 669,641	$ 531,926

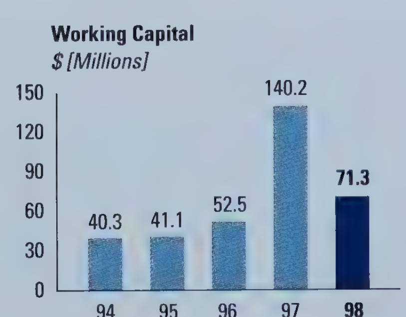
The accompanying notes are an integral part of these statements.

On behalf of the Board of Directors

Frank J. Hasenfratz, Director

Linda S. Hasenfratz, Director





Consolidated Statements of Retained Earnings

For the year ended December 31, 1998 [in thousands of dollars]

	1998	1997
Balance – Beginning of Year	**$ 275,467**	$ 176,246
Net earnings for the year	**84,385**	108,364
	359,852	284,610
Dividends	**9,639**	9,143
Excess of cost over assigned value of common shares purchased and cancelled *[note 7]*	**8,592**	-
	18,231	9,143
Balance – End of Year	**$ 341,621**	$ 275,467

The accompanying notes are an integral part of these statements.

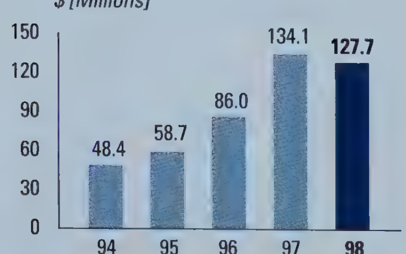
Consolidated Statements of Earnings

For the year ended December 31, 1998 [in thousands of dollars]

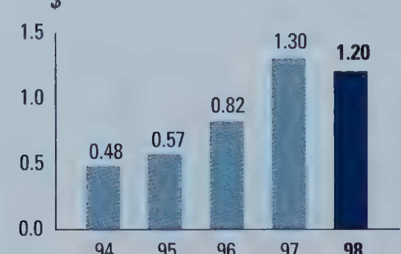
	1998	1997
Sales	**$ 998,312**	$ 771,414
Cost of Sales and Operating Expenses Before the Following:	**766,034**	549,836
Amortization	**58,465**	49,367
Selling, general and administrative	**46,093**	38,066
	870,592	637,269
Operating Earnings	**127,720**	134,145
Other Income [Expense]		
Dilution gain on issuance of shares by a subsidiary *[note 13]*	**-**	19,419
Interest earned	**4,585**	4,675
Other income	**882**	520
Interest on long-term debt	**[169]**	[400]
Other interest expense	**[1,407]**	[525]
	3,891	23,689
	131,611	157,834
Provision for Income Taxes *[note 8]*		
Current	**38,568**	43,019
Future	**4,758**	3,701
	43,326	46,720
	88,285	111,114
Non-Controlling Interests	**3,900**	2,750
Net Earnings for the Year	**$ 84,385**	$ 108,364
Earnings Per Share *[note 14]*		
Net earnings for the year	**$ 1.20**	$ 1.58

The accompanying notes are an integral part of these statements.

Operating Earnings
$ [Millions]



Earnings Per Share Excluding Non-recurring Items
$

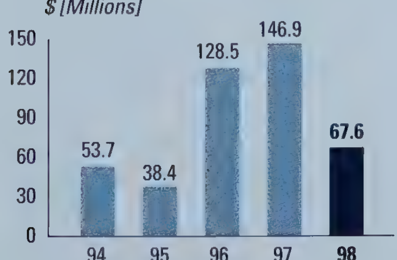


For the year ended December 31, 1998 [in thousands of dollars]

	1998	1997
Cash Flows from Operating Activities		
Net earnings for the year	$ 84,385	$ 108,364
Charges [credits] to earnings not involving cash:		
Amortization	58,465	49,367
Future income taxes	4,758	3,701
Non-controlling interests	3,900	2,750
Gain on disposal of capital assets	[75]	[306]
Dilution gain on issuance of shares by a subsidiary	-	[19,419]
Government subsidy	[579]	-
	150,854	144,457
Changes in non-cash working capital [net of effects of acquisitions]:		
Increase in accounts receivable	[45,248]	[24,864]
Increase in inventories	[18,942]	[19,382]
Decrease [increase] in prepaid expenses	139	[459]
Increase in other assets	[862]	-
Increase in income taxes recoverable	[3,194]	-
Increase [decrease] in accounts payable and accrued liabilities	[1,514]	46,868
Increase [decrease] in income taxes	[14,967]	1,325
Increase [decrease] in advance payments from customers	1,370	[1,006]
	67,636	146,939
Cash Flows from Financing Activities		
Proceeds from long-term debt	-	591
Repayment of long-term debt	[2,023]	[10,261]
Proceeds from common share issuance *[note 7]*	11,064	6,664
Repurchase of shares *[note 7]*	[9,107]	-
Dividends to shareholders	[9,639]	[9,143]
Dividends by subsidiaries to non-controlling interests	[288]	[237]
	[9,993]	[12,386]
Cash Flows from Investing Activities		
Purchase of capital assets	[171,247]	[88,358]
Proceeds from disposal of capital assets	6,803	3,056
Decrease [increase] in investment in preference shares	229	[1,143]
Proceeds on issuance of shares by a subsidiary	-	35,464
Investment by a non-controlling interest *[note 2]*	850	-
Business acquisitions *[note 2]*	[24,981]	-
	[188,346]	[50,981]
Increase [Decrease] in Cash Position	[130,703]	83,572
Cash Position - Beginning of Year	109,750	26,178
Cash Position - End of Year	$ [20,953]	$ 109,750
Comprised of:		
Cash and Short-Term Investments	$ 8,261	$ 109,750
Bank Advances	[29,214]	-
	$ [20,953]	$ 109,750

The accompanying notes are an integral part of these statements.

Cash from Operating Activities
$ [Millions]



Capital Expenditures
$ [Millions]

1 SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, applied on a consistent basis.

BASIS OF CONSOLIDATION

These consolidated financial statements include the accounts of the company and its subsidiaries. Investments in joint ventures are consolidated on a proportionate basis. Acquisitions are accounted for using the purchase method.

CASH AND SHORT-TERM INVESTMENTS

Short-term investments are stated at the lower of cost and market. Short-term investments of $8,261,048 and $111,950,885 at December 31, 1998 and 1997 respectively consisted of government securities, bank short-term deposits and commercial paper.

INVENTORIES

Inventories are valued at the lower of cost, determined on a first-in, first-out basis and market. For raw materials, market is defined as replacement cost; for work-in-process and finished goods, market is defined as net realizable value.

CAPITAL ASSETS AND AMORTIZATION

Capital assets are recorded at cost. Amortization is charged to earnings in amounts sufficient to amortize the cost of capital assets over their estimated useful lives using the diminishing balance and straight-line methods as follows:

Buildings	5% diminishing balance
Machinery	Straight-line over 5 years or 20% diminishing balance
Office equipment	20% diminishing balance
Vehicles	30% diminishing balance
Tooling	Straight-line over 1 year

PATENTS AND LICENCES

Patents are recorded at cost and are amortized on a straight-line basis over a period of 17 years. Licences are recorded at cost and are amortized on a straight-line basis over a period of 3 years.

INCOME TAXES

Income taxes are provided, at current rates, for all items included in the statement of earnings regardless of the period in which such items are reported for income tax purposes. The principal item which results in timing differences between financial and tax reporting purposes is amortization. Future income taxes are adjusted for current changes in income tax rates.

MEASUREMENT UNCERTAINTY

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

PENSION COSTS

The company has various contributory and non-contributory defined contribution pension plans which cover most employees. Current service pension costs are charged to earnings as they accrue.

EARNINGS PER SHARE

Earnings per share are calculated using the weighted monthly average number of shares outstanding during the year. The average number of shares outstanding was 70,383,476 in 1998 (1997 – 68,494,662).

FOREIGN CURRENCY TRANSLATION

The company enters into forward exchange contracts to limit its exposure under contracted US$ net cash inflows. These contracts are treated as hedges. The monetary assets and liabilities of the company which are denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. All exchange gains or losses are recognized currently in earnings except those which relate to hedges of future net cash flows. The company's foreign operations are of an integrated nature and the company uses the temporal method to translate the accounts of its subsidiaries and interests in joint ventures.

REVENUE RECOGNITION

Revenue from the sale of products is recognized at the time goods are shipped to customers. Revenue from the sale of tooling is recognized once the tooling is substantially complete and the customer approves the initial production sample.

RESEARCH AND DEVELOPMENT

Research costs are expensed as incurred. Development costs are expensed as incurred but would not be expensed if they met the criteria under generally accepted accounting principles for deferral and amortization.

2 ACQUISITIONS *(THOUSANDS OF DOLLARS)*

a On January 31, 1998, the company acquired a 77.5% interest in a small casting business located in Ontario.

b On June 8, 1998, the company acquired a manufacturing business located in Michigan, United States.

c On June 29, 1998, the company acquired a 60% joint venture interest in a precision machining business located in Kentucky, United States.

d On December 31, 1998 the company acquired a 55% joint venture interest in an engine assembly and components machining business located in Durango, Mexico.

All of the above-noted acquisitions have been accounted for as purchases with the results of operations included in these financial statements from the effective date. Details of the net assets acquired are as follows:

	a	b	c	d	Total
Cash	$ -	$ -	$ 3,768	$ 419	**$ 4,187**
Other current assets	4,572	-	6,613	2,581	**13,766**
Capital assets	3,327	10,250	500	21,399	**35,476**
Total assets	7,899	10,250	10,881	24,399	**53,429**
Bank advances	2,582	-	-	-	**2,582**
Other current liabilities	2,210	-	3,555	4,802	**10,567**
Total liabilities	4,792	-	3,555	4,802	**13,149**
Total acquisition costs	$ 3,107	$ 10,250	$ 7,326	$ 19,597	**$ 40,280**
Consideration given:					
Cash	$ 3,107	$ 10,250	$ 7,326	$ 5,903	**$ 26,586**
Payable over the next two years	-	-	-	13,694	**13,694**
	$ 3,107	$ 10,250	$ 7,326	$ 19,597	**$ 40,280**
Non-controlling interest	$ 850	$ -	$ -	$ -	**$ 850**

3 JOINT VENTURES *(THOUSANDS OF DOLLARS)*

The following is a summary of the company's proportionate share of its joint ventures.

	1998
Statement of earnings	
Revenues	**$ 16,373**
Expenses	**15,186**
Net earnings	**$ 1,187**
Balance sheet	
Current assets	**$ 16,643**
Capital assets	**$ 21,813**
Current liabilities	**$ 16,025**
Long-term liabilities	**$ 5,840**
Statement of cash flows	
Cash used in operating activities	**$ 292**
Cash used in investing activities	**$ 6**
Cash from financing activities	**$ -**

4 INVENTORIES *(THOUSANDS OF DOLLARS)*

	1998	1997
Raw materials	**$ 41,307**	$ 33,201
Work-in-process	**35,335**	23,033
Finished goods	**15,356**	11,454
	$ 91,998	$ 67,688

5 CAPITAL ASSETS *(THOUSANDS OF DOLLARS)*

	1998			1997
	Cost	Accumulated amortization	Net	Net
Land	**$ 9,512**	**$ -**	**$ 9,512**	$ 4,211
Buildings	**74,126**	**10,695**	**63,431**	29,461
Machinery	**511,402**	**193,046**	**318,356**	201,349
Office equipment	**8,025**	**3,399**	**4,626**	2,772
Vehicles	**1,891**	**802**	**1,089**	619
Tooling	**20,835**	**17,694**	**3,141**	4,182
	$ 625,791	**$ 225,636**	**$ 400,155**	$ 242,594

As at December 31, 1998, outstanding commitments for capital expenditures under purchase orders and contracts amounted to approximately $24.2 million.

6 LONG-TERM DEBT *(THOUSANDS OF DOLLARS)*

	1998	1997
Interest free loan payable in annual instalments of $1,100,000 in 1999 and 2000, and $1,074,248 in 2001	$ 3,274	$ 4,374
Interest free loans	-	579
Interest free loan payable in Hungarian forints 160,000,000 in annual instalments of 40,000,000 beginning in 1999	1,134	1,410
Bank term loan, payable in blended monthly instalments of $60,426 with interest at the lending bank's prime interest rate plus 1.375% and a final payment of $950,000 in September, 1999	1,377	1,992
Other	-	32
	5,785	8,387
Less: current portion	2,761	2,029
	$ 3,024	$ 6,358

Principal payments required to meet long-term obligations in the next four years are as follows:

Year ending December 31, 1999	$ 2,761
2000	1,384
2001	1,357
2002	283

Specific machinery is pledged as security for the interest free loans and the bank term loan.

The company is committed under certain long-term operating leases. Future minimum lease payments under these operating leases are as follows:

Year ending December 31, 1999	$ 2,027
2000	1,839
2001	1,540
2002	868
2003	438
thereafter	695

7 CAPITAL STOCK

The company is incorporated under the Ontario Business Corporations Act in Canada and is authorized to issue an unlimited number of common and special shares.

Under the employee incentive plan, the company granted options during the year on common shares. These options, which remained outstanding at year-end, can be exercised as follows:

1,533,000 at $28.54 a share before July 14, 2003

At December 31, 1998, under the employee incentive plan, the company also had options outstanding which can be exercised as follows: 468,000 at $5.83 a share before June 1, 1999

780,000 at $7.47 a share before February 21, 2001

1,374,000 at $11.17 a share before January 11, 2002

1,533,000 at $26.04 a share before January 15, 2003

During the year, options for 1,858,500 common shares were exercised giving proceeds of $11,063,940.

During the year, the company repurchased for cancellation 444,000 common shares with an assigned value of $515,242 for $9,107,350 cash.

	1998	1997
Issued (thousands of dollars)		
70,294,776 common shares (1997 – 68,880,276)	**$ 81,669**	$ 71,119

8 INCOME TAXES

The company's effective tax rate is made up as follows:

	1998	1997
Combined basic Canadian Federal and Provincial income tax rate	43.50 %	43.50 %
Increase (decrease) in the income tax rate resulting from:		
Manufacturing and processing reduction	(9.00)	(9.00)
Federal income surtax	1.12	1.12
Effect of foreign earnings	(2.37)	(1.36)
Effect of dilution gain	-	(4.15)
Miscellaneous	(0.33)	(0.51)
Effective income tax rate	32.92 %	29.60 %

9 CONTINGENT LIABILITIES

The company is involved in certain lawsuits and claims. Management is of the opinion that there will not be any significant additional liability other than amounts already provided for in these financial statements.

10 UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

11 RELATED PARTY TRANSACTIONS

Included in the purchase of capital assets are the construction of buildings, building additions and building improvements in the aggregate amount of $10.4 million (1997 - $5.2 million) by a company owned by the spouse of a director. Included in cost of sales are lease costs of $0.6 million (1997 - $0.7 million) related to properties leased from a company owned by a director and a member of management. These transactions have been recorded at the exchange amount.

12 FINANCIAL INSTRUMENTS

FOREIGN CURRENCY RISK

The company enters into forward exchange contracts to manage exposure to currency rate fluctuations related primarily to its future net cash flows of US dollars from operations. The purpose of the company's foreign currency hedging activities is to minimize the effect of exchange rate fluctuations on business decisions and the resulting uncertainty on future financial results. At December 31, 1998, the company was committed to a series of monthly forward exchange contracts maturing during the following four years as noted below. At December 31, 1998, the net unrecognized loss was approximately $50.2 million. As these forward exchange contracts qualify for accounting as hedges, the unrealized gains and losses are deferred and recognized in earnings as the sales and expenses which generate the net cash flow occur.

Year		Amount Hedged	Average Exchange Rate
1999	US $	168,000,000	1.3969
2000		168,000,000	1.3990
2001		124,000,000	1.4642
2002		60,000,000	1.4800

CREDIT RISK

At December 31, 1998 the accounts receivable from the company's three largest customers amounted to 27.3%, 5.7% and 4.9% of accounts receivable (1997 – 23.3%, 8.3% and 11.5%).

FAIR VALUE

At December 31, 1998, the carrying values reported in the balance sheet for cash and short-term investments, accounts receivable and current liabilities approximate fair value, due to the short-term nature of those instruments. The fair values of the investment in preference shares, the accounts payable due in 2000 and the long-term debt are not significantly different from carrying values.

13 OTHER INCOME

In 1997, other income included the non-recurring dilution gain on issuance of shares by the company's Hungarian subsidiary. The effect on basic earnings per share of this gain in 1997 was approximately $0.28.

14 FULLY DILUTED EARNINGS PER SHARE

If it were assumed that the options had been exercised at the beginning of the year, then the earnings per share would have been $1.17 (1997 - $1.51). This calculation assumes after-tax imputed earnings of approximately $1.5 million (1997 - $2.3 million) based on an after-tax rate of return of approximately 6.0% on the funds which would have been received.

15 CASH FLOWS *(THOUSANDS OF DOLLARS)*

The cash flows from operating activities include:

		1998		1997
Interest paid	**$**	**1,586**	$	1,066
Interest received	**$**	**5,191**	$	4,071
Income taxes paid	**$**	**56,729**	$	41,694

16 SEGMENTED INFORMATION *(THOUSANDS OF DOLLARS)*

The company currently operates in two significant industry segments and four countries and accounts for inter-segment sales and transfers at current market prices.

The precision machining segment consists primarily of the manufacturing and assembly of automotive components for original equipment manufacturers and their suppliers. All companies operating in the precision machining business have been aggregated in this segment including the foundry and assembly facilities. Substantially all automotive revenue is derived from sales to major North American manufacturers. In the year ended December 31, 1998, sales to the company's largest customers amounted to 26.1%, 8.8% and 8.3% of total sales revenue (1997 – 34.0%, 15.0% and 9.1%). The agricultural equipment segment consists of the assembly and sale of harvesting equipment.

	Year ended December 31, 1998 – Industry Segments			*Year ended December 31, 1997* – Industry Segments		
	Precision Machining	**Agricultural Equipment**	**Total**	Precision Machining	Agricultural Equipment	Total
Total revenue	**$ 959,894**	**$ 39,494**		$ 734,830	$ 36,982	
Inter-segment sales	**759**	**317**		149	249	
Sales to customers outside the company	**$ 959,135**	**$ 39,177**	**$ 998,312**	$ 734,681	$ 36,733	$ 771,414
Net earnings before non-recurring items	**$ 78,287**	**$ 6,098**	**$ 84,385**	$ 84,483	$ 4,462	$ 88,945
Interest earned	**$ 3,640**	**$ 945**	**$ 4,585**	$ 3,540	$ 1,135	$ 4,675
Interest expense	**$ 1,482**	**$ 94**	**$ 1,576**	$ 654	$ 271	$ 925
Income taxes expense	**$ 42,977**	**$ 349**	**$ 43,326**	$ 46,413	$ 307	$ 46,720
Identifiable assets	**$ 625,697**	**$ 43,944**	**$ 669,641**	$ 492,817	$ 39,109	$ 531,926
Payments for capital assets	**$ 163,302**	**$ 7,945**	**$ 171,247**	$ 87,605	$ 753	$ 88,358
Amortization	**$ 57,670**	**$ 795**	**$ 58,465**	$ 48,713	$ 654	$ 49,367

Revenues	**Geographic Information 1998**	1997
Canada	**$ 90,322**	$ 67,817
United States	**854,489**	664,906
Other foreign countries	**53,501**	38,691
	$ 998,312	$ 771,414

Revenues are attributed to countries based on location of customer.

The company currently operates in four geographic segments.

Year ended December 31, 1998	**Geographical Segments – Canada**	**United States**	**Mexico**	**Hungary**	**Total**
Total revenue	**$ 915,281**	**$ 34,221**	**$ 383**	**$ 59,275**	
Inter-segment sales	**177**	**687**	**4**	**9,980**	
Sales to customers outside the company	**$ 915,104**	**$ 33,534**	**$ 379**	**$ 49,295**	**$ 998,312**
Net earnings before non-recurring items	**$ 79,981**	**$ 603**	**$ (2,222)**	**$ 6,023**	**$ 84,385**
Interest earned	**$ 3,618**	**$ 107**	**$ 5**	**$ 855**	**$ 4,585**
Interest expense	**$ 1,443**	**$ 2**	**$ -**	**$ 131**	**$ 1,576**
Income taxes expense	**$ 42,354**	**$ 462**	**$ -**	**$ 510**	**$ 43,326**
Identifiable assets	**$ 543,155**	**$ 30,199**	**$ 38,942**	**$ 57,345**	**$ 669,641**
Payments for capital assets	**$ 146,737**	**$ 4,360**	**$ 10,026**	**$ 10,124**	**$ 171,247**
Amortization	**$ 54,871**	**$ 1,146**	**$ 67**	**$ 2,381**	**$ 58,465**

Year ended December 31, 1997	Geographical Segments – Canada	United States	Mexico	Hungary	Total
Total revenue	$ 711,079	$ 18,264	$ -	$ 55,356	
Inter-segment sales	24	723	-	12,538	
Sales to customers outside the company	$ 711,055	$ 17,541	$ -	$ 42,818	$ 771,414
Net earnings before non-recurring items	$ 83,753	$ 313	$ -	$ 4,879	$ 88,945
Interest earned	$ 3,422	$ 2	$ -	$ 1,251	$ 4,675
Interest expense	$ 334	$ -	$ -	$ 591	$ 925
Income taxes expense	$ 46,294	$ 56	$ -	$ 370	$ 46,720
Identifiable assets	$ 471,413	$ 6,295	$ -	$ 54,218	$ 531,926
Payments for capital assets	$ 83,247	$ -	$ -	$ 5,111	$ 88,358
Amortization	$ 47,501	$ -	$ -	$ 1,866	$ 49,367

Senior Executive Management Group

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the accompanying consolidated financial statements.

OVERVIEW

Linamar Corporation and its subsidiaries (collectively, "the Company") operate in two business segments and conduct their manufacturing in four countries. The primary business segment, the precision machining segment, is a supplier of assemblies and precision machined parts, mainly to the North American automotive industry. Through the automotive section of this segment, the Company manufactures components and parts for a wide range of platforms for automobiles, light, medium and heavy duty trucks. These components and parts are primarily for transmissions, engines, steering, axles, drivelines, brakes, and suspension systems.

The North American precision machining business is centred in Guelph, Ontario where the Company operates 18 manufacturing facilities and employs 4,630 persons. The automotive and light truck customers include General Motors, Ford, Chrysler, Honda and Toyota. The other truck components are produced for the North American diesel engine market. During the year, the Company increased its manufacturing capacity in Guelph with the construction of two more precision machining facilities. The Company also terminated its lease of a warehouse facility and built a new warehouse facility for its transportation and customs business.

As an extension to the Canadian machining business the Company purchased a 77.5% interest in a small foundry in Windsor, and immediately invested in an expansion project to increase its capacity from $16 million to $30 million in annual sales. Investments were made in the Guelph "lost foam" casting facility bringing its capacity up to $40 million in annual sales. During 1998, the Company purchased a 60% interest in a business which machines connecting rods and cylinder heads in Kentucky, U.S.A.. It purchased a start-up business in Michigan U.S.A. which machines, cleans and paints engine blocks.

In late 1997, the Company through its LPP Manufacturing Division established a dedicated assembly facility in Guelph. LPP assembles small gasoline engines for power generation for portable welders, motor homes and other applications. Other Linamar facilities machine components for these engines. This provides the Company with further expertise in assembly and opens up new opportunities in the crankshaft and camshaft components market.

In Mexico, the Company built a new facility to machine transmission components for a nearby General Motors assembly plant. This facility begins production in mid 1999. At year end, the Company purchased from Renault France a 55% interest in an established Mexican company which has a large facility dedicated for the next 19 months to machining engine components and assembling a complete engine for Renault France. The remaining 45% was purchased by an investment broker. The intention is to gain valuable experience operating this facility and find a manufacturing partner to develop this site for new engine business.

The European precision machining business, a segment of Mezögép Rt., is centered in Orosháza, Hungary where the Company operates two plants. During early 1998, Mezögép also converted a

portion of its agricultural facilities at Orosháza to precision machining. In November 1998, Mezögép commenced construction of a new plant on its Békéscsaba premises. This plant will be devoted to the expanding precision machining business. The European automotive industry will be supplied from the Company's manufacturing operations in Hungary, Mexico and Ontario.

The Company's other business segment, the agricultural equipment segment, includes Mezögép Rt.'s agricultural divisions located in Hungary at Orosháza and Békéscsaba. Through this segment, the Company manufactures and supplies corn heads and other components for combines to the agricultural industry in Western and Eastern Europe, North America and Asia. The year began with high expectations for the agricultural equipment segment. However as the year progressed the world markets for corn and wheat contracted. As a result, the agricultural equipment segment customers delayed some orders until 1999 and cancelled some other orders. The depressed market is expected to continue through 1999. In December 1997, the Company ceased its agricultural activity in North America. The Company has retained the agricultural equipment business conducted by Mezögép Rt.

CONSOLIDATED RESULTS OF OPERATIONS

REVENUES

The Company's consolidated revenues in the year ended December 31, 1998 totalled $998.3 million compared to $771.4 million in the year ended December 31, 1997 and $607.7 million for the year ended December 31, 1996. In 1998, the increases in revenue were attributable to both the new small gasoline engines for power generation and the growth in the automotive section of the precision machining segment. The growth in the automotive section was primarily related to engine components with some growth in axles and brake components. In 1997 and 1996, the increases in revenues resulted primarily from increases in the automotive section of the precision machining segment. The Company continued to increase its volume of existing business in the truck and automobile markets.

In the precision machining segment, the growth in 1997 resulted from increased revenues from all customers, consisting of increased volumes in existing business and also new business opportunities. The growth was spread among components for transmissions, engines, drivelines, axles and steering. In 1996, the Company continued to increase production under a new transmission contract obtained in 1995. Production also began under 1996 transmission and engine component contracts.

The Company's precision machining segment's sales during the year ended December 31, 1998 were realized at an average rate of $79.9 million a month compared to an average rate of $61.2 million a month for the year ended December 31, 1997 and $47.1 million a month during the year ended December 31, 1996. These increases resulted from a continuing growth in the volumes of both new and existing business. In 1998, the sales increase was $224.4 million for the year or 30.6%. The sales of the small engine accounted for 37% of this increase while the automotive sales accounted for 53% of this increase. The General Motors strike disrupted the Company's sales in mid summer, as a number of operations were shutdown and then brought back to production at very high levels. This disruption caused a reduction in sales of approximately $23.4 million and a reduction in anticipated earnings of about $0.14 per share. In 1997, the production of components for transmissions engines and steering increased over 1996 by approximately 25% each, while the production for driveline and axles increased by 197% and 67% respectively. In 1996, the largest single contributor to increased sales was approximately $50 million of additional sales of transmission components related to contracts obtained during 1996 and 1995.

In 1996, an opportunity arose to sell the North American agricultural business unit. The Company completed this transaction to allow the Company to devote its resources to the more profitable precision machining segment. During the years ended December 31, 1998 and 1997 sales by the agricultural segment totalled $39.2 million and $36.7 million. These 1998 and 1997 sales all resulted from manufacturing at the Mezögép Rt. facilities in Hungary. This segment is now profitable. For the year ended December 31, 1996, the agricultural segment's sales to North American and Western European markets totalled $42.5 million.

COST OF SALES

The Company's cost of sales, excluding amortization, as a percentage of total revenues increased to 76.7% for the year ended December 31, 1998 having previously decreased to 71.3% for the year ended December 31, 1997 from 73.6% for the year ended December 31, 1996 and 77.9% for the year ended December 31, 1995. The substantial decrease in margins in 1998 related to the many start ups, plant changeovers and expansions during 1998. In mid summer the General Motors strike adversely

affected the cost of sales as both the lost production during the strike and the following high production levels created many inefficiencies. As well the 1997 short-term high margin contracts referred to below ended. The Company had seven facilities in a start-up mode. Also, four plants experienced significant changeovers. As expected, the new small engine assembly business with its new machining processes has provided a significant sales increase.

The higher margins in 1997 were attributable mainly to the precision machining segment which experienced better margins on some short-term contracts and, to a lesser degree, to the effect of using consigned rather than purchased material to service certain contracts. During 1997, the Company had only one machining plant that was in a start-up mode throughout the year. Further improvement was achieved from the decrease in the proportion of the Company's lower margin agricultural business. The improvement in 1996 over the previous year was a result of a combination of factors. The Company realized significant improvements in those plants that had been in startup mode during 1995. These improvements came through a combination of gaining operating experience on a number of new lines and the ramping up of contracts towards full production. A shift in the mix of business from using purchased material to machining consigned material contributed to 30% of the 4.3% decrease. The margins on machining consigned material are higher than on machining purchased material because the value-added percentage is higher. The lower margins in 1995 were caused by lower margins in three plants that had significant programs in start-up mode during 1995. Although substantial improvements had been achieved by the 1995 year-end, these programs had not been able to meet targeted profit levels. Efforts to improve margins, particularly at these plants, continued into 1996. These efforts consist of working with employees, suppliers and customers to improve the processes to achieve appropriate margins.

AMORTIZATION

For the year ended December 31, 1998 amortization costs were $58.5 million, or 5.9% of sales. For the year ended December 31, 1997, amortization costs were $49.4 million, or 6.4% of sales. Amortization costs were $40.5 million, or 6.7% of sales for the year ended December 31, 1996. The small decrease in the ratio in 1997 can be attributed to the high level of short-term consignment sales. Whereas in 1998, the decrease relates to the dilution effect of the small engine assembly business at LPP. The Company continued to maintain a high level of investment in capital equipment both through direct investment and through purchases of businesses. This created the absolute increase in the amortization. The timing of the investments resulted in the 1998 decrease in the following percentage. Amortization compared to the average net book value of capital assets was 18.2%, 22.1% and 21.9% in 1998, 1997 and 1996 respectively.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were $46.1 million or 4.6% of revenues during the year ended December 31, 1998 compared to $38.1 million or 4.9% of revenues during the year ended December 31, 1997 and to $33.7 million or 5. 5% of revenues during the year ended December 31, 1996. As expected, the 1998 and 1997 level of selling, general and administrative expenses as a percentage of sales has returned to historical levels. During 1996, these expenses included final allowances of $4.3 million or 0.7% of sales related to uncollected receivables from previous years' sales from its North American operations to Eastern Europe and Asia.

OPERATING EARNINGS

The above-noted factors contributed to an decrease in the Company's operating earnings for the year ended December 31, 1998 to $127.7 million, or 12.8% of sales, from $134.1 million, or 17.4% of sales, for the year ended December 31, 1997. The Company's operating earnings for the year ended December 31, 1996 were $86.0 million, or 14.2% of sales.

INTEREST INCOME AND EXPENSE

The interest earned on the excess cash balances steadily decreased as the excess cash was used for expansion purposes. The average cash balance was somewhat lower than in the previous year. However, the interest rate was somewhat more favourable. Total interest expense for the year ended December 31, 1998 was $1.6 million. Total interest expense for the year ended December 31, 1997 was $0.9 million compared to $2.2 million for the year ended December 31, 1996. During the first half of the year ended December 31, 1998, the Company had little requirement for debt. However, as the investments in capital assets and working capital for new business accelerated, the Company began to rely more on its operating lines. Throughout most of 1997 the interest rate remained stable. However,

the average interest rate in 1998 was approximately 35% higher than the rate in 1997. Note 6 in the accompanying consolidated financial statements sets out the details of the long-term debt. During the year ended December 31, 1997 the Company's requirements for debt decreased significantly and two outstanding long-term loans were repaid with the result that interest expense had continued to decline. During the year ended December 31, 1996, the average short-term interest rates decreased by approximately 29%. This resulted in a decrease in interest expense on short-term debt. In 1996, interest on long-term debt decreased by $0.6 million because the amount of interest bearing long-term loans decreased.

OTHER INCOME

For the year ended December 31, 1998, other income was mainly comprised of the forgiveness by the government of two loans received by the Company approximately ten years ago. For the year ended December 31, 1997, other income was comprised mainly of a non-recurring dilution gain of $19.4 million on the dilution of the Company's interest in its Hungarian subsidiary, Mezögép Rt. through Mezögép Rt.'s public share issuance. For the year ended December 31, 1996, other income was comprised mainly of a non-recurring gain of $10.8 million on the sale of the North American agricultural business unit. These non-recurring events added $0.85 and $0.31 to the earnings per share for 1997 and 1996 respectively. In both years, the balance of other income was the net gain on the disposal of capital assets.

INCOME TAXES

The federal incentive for manufacturing and processing remained unchanged in the years ended December 31, 1998, 1997 and 1996. Also in each of these years, the Company had a reduction in its effective tax rate as a result of the lower income tax rates in other countries in which the Company operates. In particular, Mezögép Rt. has been granted full relief from income taxes until December 31, 2001 as long as it continues to meet certain general growth targets set by the Hungarian government. It is expected that this benefit will diminish somewhat over time as the Company's proportion of earnings earned in taxable jurisdictions continues to increase further over time relative to the increase in non-taxable jurisdictions. In 1998, the effect of this benefit increased as Mezögép Rt.'s earnings constituted a greater proportion of the consolidated earnings before tax than in the prior year. Compared to 1996, this benefit had a reduced effect in 1997 due to the continuing growth in the proportion of the Company's earnings in Canada. There was no tax effect related to the 1997 non-recurring gain recorded as a result of the Mezögép Rt. public share issuance since the Company has no plans to sell any Mezögép Rt. shares.

NET EARNINGS

The Company's net earnings for the year ended December 31, 1998 were $84.4 million, or 8.5% of sales, compared to net earnings for the year ended December 31, 1997 of $108.4 million, or 14.0% of sales, and net earnings of $61.6 million, or 10.1% of sales, for the year ended December 31, 1996. The lower ratio of earnings as a percent of sales in 1998 came mainly as a result of the new start ups, the plant changeovers and expansions experienced at the North American precision machining plants. These facilities had significant projects in start-up mode and had not yet achieved margins consistent with the level of the Company's other facilities. As well, the general strike at General Motors in the summer created inefficiencies both as a result of the shutdowns and as a result of the recall to work which came with a much higher level of demand by General Motors as they struggled to regain market share.

The increase in 1997, as compared to 1996, resulted mainly from the improvements in the precision machining segment and the non-recurring dilution gain on the public share issuance by Mezögép Rt. The Company continued to benefit from its increasing investment in capital assets (see discussion below) and better utilization of its productive capacity. Without the non-recurring gain, the Company's net earnings for the year ended December 31, 1997 would have been $89.0 million, or 11.5% of sales. Without the non-recurring gain on the sale of the North American agricultural business unit, the Company's net earnings for the year ended December 31, 1996 would have been $54.6 million, or 9.0% of sales.

CAPITAL RESOURCES AND LIQUIDITY

CASH, SHORT-TERM INVESTMENTS AND BANK ADVANCES

The Company's net bank advance position at December 31, 1998 was $21.0 million. This represents a decrease of $130.7 million from the Company's net cash position at the end of the previous year. This was a year with many opportunities for investment in the future. The substantial increase in sales related operating activities required $83.2 million in cash to fund non-cash working capital requirements. The Company made investments in other businesses totalling $25.0 million.

The cash from operations of $150.9 million fell short of the Company's purchases of capital assets by $20.4 million. The cash position of the agricultural equipment segment in both 1998 and 1997 varied with the seasonality of its business. The segment builds inventories for summer sales and collects its accounts receivable through the fall. However, in 1998 the segment's customers deferred delivery on many contracts as the agricultural equipment market shrank in the latter half of the year. As a result the agricultural segment crossed the year end with $7.0 million more in inventory than in the prior year. This excess 1998 agricultural equipment inventory is expected to be used up in the 1999 sales.

In the first five business days after the 1998 and 1997 year ends, the Company received approximately $20.9 million and $15.7 million from its major customers. In a normal month, most of these cash receipts would be received prior to the month end.

The Company's net cash position at December 31, 1997 was $109.8 million. This was an increase of $83.6 million over the Company's net cash position at December 31, 1996. The receipt of $35.5 million of proceeds in March 1997 on the issuance of shares by Mezögép Rt. improved the cash position.

The cash position in the precision machining segment steadily increased throughout 1997. During the year, the Company accumulated cash in excess of its current needs for operating activities. As stated in note 1 to the financial statements, this cash was invested in short-term government securities, bank deposits and high grade commercial paper. Cash flow in the precision machining segment was sufficient throughout 1996 to meet the payment for expenditures on capital assets. Although there was some disruption in the normal cash flow over the 1997 year end due to the effects of the automotive shutdown, the effects on the cash position were not as significant as in some prior years.

ACCOUNTS RECEIVABLE

The accounts receivable balance of $163.1 million at December 31, 1998 was 48.5% higher than the level as at December 31, 1997. Although the year over year sales increase was 29.4%, the increase in sales comparing the last forty five days, year over year, was 51.8%

The accounts receivable for the year ended December 31, 1998 were at the level of 16.3% of sales, as compared to 14.2% of sales for 1997 and to 14.0% of sales for the year ended December 31, 1996. The accounts receivable balance of $109.8 million at the end of December 1997 was $24.9 million or 29.3% higher than the level as at December 31, 1996. This increase was a result primarily of the 26.9% increase in sales volume. As noted above there was some difficulty in receiving cash in the few days immediately prior to December 31, 1998 and that has significantly impacted the 1998 year end accounts receivable percentages.

At December 31, 1998, the accounts receivable from the Company's three largest customers amounted to 27.3%, 5.7% and 4.9% of the year end accounts receivable while sales to those customers were 26.1%, 8.8% and 8.3% of the company's sales, respectively. At December 31, 1997, the accounts receivable from the company's three largest customers amounted to 23.3%, 8.3% and 11.5% of the year end accounts receivable while sales to those customers were 34.0%, 15.0% and 9.1% of the Company's sales, respectively.

INVENTORIES

Inventories were $92.0 million at December 31, 1998 which represents an increase of $24.3 million over the $67.7 million level at December 31, 1997. In 1998, there was an increase of 29.4% in the sales volume and inventories increased by 35.9% . The sales increase of 29.4% could allow for an inventories increase of $19.9 million. At year end, the inventories in the agricultural segment were $7.0 million more than the previous year.

Inventories were $67.7 million at December 31, 1997, which represented an increase of $19.4 million over the $48.3 million level as at December 31, 1996. In 1997, there was an increase in sales volume of approximately 30.0% in the precision machining segment, and inventories in this

segment increased by 37.8%. This occurred because the new small engine assembly facility was carrying approximately $10.2 million in inventory at year end. As the facility commenced production in November 1997, its sales were only $4.8 million by year end. As the new assembly facility establishes its sources for material, it is expected that it will be able to reduce its concentration of inventories. However, it will still carry more inventories to support its sales than is necessary in a typical machining plant. The balance of the increase in inventories is attributable to the increased production volumes.

CAPITAL ASSETS

The Company's net book value of capital assets, as at December 31, 1998, was $400.2 million, being $157.6 million greater than the $242.6 million net book value of capital assets as at December 31, 1997. In 1998, the Company acquired capital assets totalling $222.8 million. Of these, $35.5 million were acquired through the Company's acquisitions and the balance was purchased directly. Of these acquisitions, $214.9 million was invested in the precision machining segment, comprised mainly of machinery and tooling purchases. These investments primarily related to the manufacturing and assembly of engines and engine components, driveline, fuel system components and foundry capacity. The balance of the 1998 capital asset investment in the precision machining segment related primarily to both the Company's construction of the new Corvex, Eston and Linamar de Mexico manufacturing facilities and the new Linamar Transportation facility and the Company's acquisition of its share of Industrias de Linamar and the acquisition of Standard Induction. The Company also constructed additions to the Diversa Cast, Standard Induction and Comtech plants. The total cost of new facilities and additions was approximately $36.1 million. The total additional manufacturing floor space was approximately 440,000 square feet constructed and 1,035,000 square feet acquired. In 1998, the Company made direct payments of approximately $171.2 million for capital assets. These payments for purchases of capital assets were funded through cash from operating activities and excess cash balances at the beginning of the year.

The Company's net book value of capital assets, as at December 31, 1997, was $242.6 million, being $38.1 million greater than the $204.5 million net book value of capital assets as at December 31, 1996. The purchases of capital assets in 1997 totalled $90.2 million. Of these purchases, $89.5 million was invested in the precision machining segment, comprised mainly of machinery and tooling purchases. These investments primarily related to the production of drivelines, transmission components, engines and steering components. The balance of the 1997 capital asset investment in the precision machining segment related primarily to the Company's construction of the new LPP assembly facility and additions to the Vehcom plant for a total cost of approximately $4.5 million. These investments provided an additional manufacturing floor space of 140,000 square feet. These plants are part of the precision machining facilities located in Guelph, Ontario. For $1.2 million, the Company also purchased a small manufacturing facility located on 7.9 acres of land adjacent to the LPP assembly plant. This plant was used for prototype production in 1998, and the site was used for the construction of the Eston facility. In 1997, the Company made payments of approximately $88.4 million for capital assets. These payments for purchases of capital assets were funded through cash from operating activities.

OTHER ASSETS

In 1997, the Company invested $1.143 million in 5% preference shares in a new customer of its subsidiary Mezögép Rt. These shares are fully retractable at the option of the Company in equal amounts over the next five years and $0.229 million were redeemed in 1998. This new customer purchased approximately $0.775 million in pickup headers from Mezögép Rt. in the 1998 fiscal year.

WORKING CAPITAL

Working capital at December 31, 1998 was $71.3 million, a decrease of $68.9 million over December 31, 1997. The decrease in 1998 related to the major investment in capital assets and new companies noted above. Working capital at December 31, 1997 was $140.2 million, an increase of $87.7 million over December 31, 1996. The proceeds from the Mezögép Rt. public offering increased working capital by $35.5 million. The changes in both 1998 and 1997 are considered to be within the Company's normal operating limits.

FINANCIAL RESOURCES

The Company's financial position continued to be strong through 1998 although its cash position was reduced as these funds were used to further the Company's asset growth. At the end of the year, long-term debt accounted for only 1.2% of total capitalization. During the year ended December 31, 1998, cash provided from operating activities decreased by $79.3 million to $67.6 million. As in previous years, the funds from operating activities were primarily used to fund purchases of capital

assets. Funds from operations increased by $6.4 million during 1998 from $144.5 million to $150.9 million over the previous year, and the non-cash working capital provided by operations in 1998 decreased by $85.7 million to a use of $83.2 million from a source of $2.5 million. This reversal in 1998 had been expected. The long-term payables recorded at the end of 1998 relate to the extended payment terms on the purchase of Industrias de Linamar. It is intended that these will be funded from the cash flow generated from the operations of that company.

The Company's financial position had continued to strengthen during 1997. At the end of that year, long-term debt accounted for only 2.2% of total capitalization. During the year ended December 31, 1997, cash provided from operating activities were primarily used to fund purchases of capital assets. Funds from operations increased by $48.4 million during 1997, from $96.1 million to $144.5 million over the previous year, and the non-cash working capital provided by operations in 1997 decreased by $29.8 million, to $2.5 million at December 31, 1997 from $32.3 million at December 31, 1996.

In fiscal 1997, the Company also received proceeds of $35.5 million from the issuance of shares by Mezögép Rt. The Company repaid $10.3 million in long-term debt and paid dividends of $9.1 million. At December 31, 1998, the Company had available approximately $95 million of short-term bank credit facilities. The Company continues to service both its long-term and short-term indebtedness with cash produced by its operating activities.

The Company's interest free loans result from government initiatives and are repayable to the various levels of government according to the terms indicated in the attached financial statements. It is not possible for the Company to predict the likelihood of similar loans being available in the future.

The Company believes that cash from operations and borrowings available under its revolving credit facility will be sufficient to meet its anticipated cash needs for the foreseeable future. Since 1995, the Company has paid quarterly dividends. Each year those dividends, which amounted in the aggregate to 13 1/3 cents and 13 2/3 cents in 1998 and 1997, after adjusting for a three-for-one share split effective May 19, 1998 respectively, have been based on the Company's performance in the prior year and on the expected performance in the coming year. Management expects that the Board of Directors will continue its established dividend policy. In 1999, the Company expects to be able to maintain its future interest expense at the current low level, support the dividend policy, and make certain payments on long-term debt without incurring further long-term debt. The Company also plans to make modest acquisitions during the coming year as appropriate opportunities arise. It is expected that these will be funded through the cash from operating activities.

FUTURE INCOME TAXES

In 1998, future income taxes increased by $4.8 million due to increased timing differences resulting from depreciation on capital assets. In 1997, the Company adapted the CICA's recommendations concerning the change from deferred income taxes to future income taxes. This change was applied retroactively. In 1997, future income taxes increased by $3.7 million due to increased timing differences resulting from depreciation on capital assets and the reduction of losses carried forward in three subsidiaries.

OUTLOOK

The Company expects that the sales revenue from the automotive section of the precision machining segment will continue to grow in 1999 at a similar rate experienced during the year ended December 31, 1998. This sales growth, which is anticipated to be approximately $170 million, is expected to develop from continued expansion in current programs as the related end products become increasingly used in new automotive models, from the inclusion of a full years' production at each of the facilities acquired during the year and from the commencement of production in a number of programs for which capital investments were made during 1998. In 1998, the Company expanded its available manufacturing floor space both through acquisitions and new construction. It is expected that the Company will continue to seek such new opportunities for profitable growth. The Company continues to receive new automotive related contracts for machining parts and for assemblies. Most of the precision machining segment's new business typically has a six to fifteen month start-up phase while equipment is obtained and the manufacturing process is defined. Over the subsequent year or two, the process is then refined and the customer's volumes are steadily increased to the expected full production level. In some cases the Company is able to take advantage of short-term production opportunities. These short-term opportunities result when the customer reaches capacity as the market grows. With the Company's recognized ability to react quickly with both people and equipment resources, Linamar is a preferred source for critical short-term contracts. Such business is expected to

continue through the next year. The Company limits its exposure under such programs by using standard equipment that can be used in other applications once the spot buy program ends.

In the second half of 1997, the Company obtained a contract to produce Onan gasoline engines for power generation. The engines manufactured by the Company are now being sold for use in portable arc welders, motor homes, and other commercial uses. At the end of 1997, the Company commenced production. Sales of these engines reached approximately $88 million in 1998. The Company continues to pursue other opportunities for these engines. Higher volumes are necessary to make this strategic move a profitable one. This business develops and extends the Company's assembly and other engine component capability through this business. The Company is currently developing expertise in the manufacture of crankshafts and camshafts.

The Company continues to enter into more long-term contracts. As this occurs, the Company is maximizing the use of general purpose machinery and reviewing the timing of the expiry of these contracts to ensure there is minimal disruption to the Company's operations. At December 31, 1998, the Company had approximately $24 million in outstanding commitments for capital expenditures under purchase orders and contracts, and a further $30.4 million in accounts payable. The majority of these commitments relate to new business coming on stream over the next two years. The Company expects to make payments for capital assets totalling approximately $150 million in the next year, a substantial portion of which will be used to acquire new machinery for new programs. The balance is used to increase capacity as required for current programs and to achieve the necessary efficiencies that accrue from appropriately employing current technology.

In early 1998, the Company incorporated a subsidiary in Mexico to machine transmission parts for the automotive industry in Mexico. This business will commence production in mid 1999. Since the Company has committed to expand in this region, many of the Company's other customers have expressed interest in the possibility of obtaining manufactured product with Mexican content from the Company's Mexican subsidiary.

At December 31, 1998, the Company also invested, with a 45% minority partner, in an engine assembly facility. This facility, located in Torréon, Mexico, has one million square feet of manufacturing space. Currently, approximately 50% is dedicated to machining engine components and the balance is for or is available for assembly. This facility is currently used for the machining of engine components and the assembly of engines for Renault under a contract which lasts until August 2000. By that time the Company and its partners anticipate developing appropriate manufacturing opportunities for this facility. It is expected that a new engine customer of this size would request a significant ownership interest and will at least take the position of the current minority partners.

The Company's main competitors are approximately six operations in the USA as well as the in-house capabilities of the automotive manufacturers. The Company continues to expect that it will face strong and increasing competition based on price, quality, service and delivery. In order to maintain its competitive advantage and to satisfy its customers, the Company is continuing to develop strategic alliances, partnerships or joint ventures with its suppliers, customers and other automotive companies.

The Company has been developing an additional casting capability in a small casting company, Diversa Cast Technologies Inc. This casting capability allows the Company to use the "lost foam" technique to produce some castings for products that the Company currently machines. Although the start-up continues to be difficult, the Company expects to reach a breakeven on these operations by the end of 1999. The level of sales in this area is expected to grow to about $14 million in two years.

The Company has also established a new entity, Standard Induction Castings Inc., through which it and a minority partner, the previous owner of the business, purchased the business of Standard Induction Castings Ltd. in the city of Windsor, for approximately $3.1 million. This business produces grey iron and ductile iron castings. The new partner continued his role in managing the business. The Company expanded the productive capacity during 1998 with the further investment of $4.8 million in a building addition and additional manufacturing capacity. Due to the disruption caused by the construction, this foundry was not profitable in 1998. However, it has rationalized its customer base and expanded its sales and in 1999 expects to be profitable again with a sales level of about $30 million.

During 1998, the Company took advantage of two investment opportunities in the United States. The first was the purchase of a business being established to machine, clean and paint engine blocks for General Motors. This rented facility, located in Michigan, is expected to become profitable in 1999. The second acquisition was the purchase of a 60% interest in a business which machines cylinder heads and connecting rods for the partner holding the other 40%. The equipment used in this business is provided by the minority partner. The business located in a rented facility in Florence, Kentucky is accounted for by proportionate consolidation.

In 1998, Mezögép Rt. obtained a contract to machine components for electrical generators. This business will be transferred from its location in Great Britain to a new facility being constructed at Békéscsaba.

In 1998, the Company built a 97,000 square foot facility in Guelph to machine fuel system components for diesel engines. It also built a further 95,000 square foot facility in Guelph to machine driveline components for the automotive industry.

The Company operates through facilities that function as autonomous operating units. Each facility is operated as a profit centre managed by a general manager with production expertise who has discretion, within broad guidelines established by the Company's senior management, to determine hours of work, sources of supply and contracts to be performed. The independence of each plant allows the Company to react quickly to new business opportunities. It also allows operational decision-making and cost control to occur at the plant level, thus permitting the monitoring of each profit centre and the effective implementation of management incentive programs.

The Company is committed to the premise that organizational quality is one of the most critical elements in building and sustaining competitiveness in a global marketplace. Organizational quality requires that effective quality operating systems be incorporated into all of the business functions. The Company has invested heavily in advanced measuring and monitoring equipment and utilizes a program known as Statistical Process Control. This gives a machine operator the ability to rectify deviations that potentially lead to quality problems or unnecessary machine wear. The Company also performs ongoing machine, process and gauge capability studies to ensure that quality and productivity are maintained or improved where possible. Currently, 16 of the Company's 28 facilities in the precision machining segment are QS-9000 registered suppliers with the balance of the facilities striving for registration in 1999. The continued success of the Company's quality program is evidenced by its success under the QS-9000 continual recertification program. The Company has in the past restricted its automotive research and development activities primarily to ongoing process development, undertaken at each plant by the management team in response to opportunities as they arise. In 1998, the Company established a small product development team with a dual focus. First, this group is expected to work with potential customers to develop the machining and manufacturing processes on new programs. The second objective is to work with the plants on cost reduction efforts for their customers. Research and development for agricultural equipment, although similar in nature, is more product than process oriented.

The Company continues to explore and obtain automotive components and parts opportunities in Europe for manufacture in its Mezögép Rt. facility. The automotive experience gained from Mezögép Rt's production of vacuum pumps, recent machining of new automotive parts, and the related ISO 9002 Registration make the Mezögép Rt. subsidiary a capable producer for the Western European market.

The Company expects that in 1999 the agricultural equipment segment's revenues at Mezögép Rt. will remain stable. The corn headers produced by Mezögép Rt. for the Western European market currently represent the only agricultural product of the Company that has a significant share of its market. However, Mezögép Rt. does have a variety of other harvesting products which it produces. In addition, Mezögép Rt. will continue to supply AGCO with combine parts and assemblies through its long-term contract.

Risks associated with Eastern Europe include political and currency instability, developing infrastructure, the potential inability to repatriate earnings, and a developing legal framework. Certain of these risks, particularly currency instability, are also present in Mexico. While reforms directed at political and economic liberalization are in process in these jurisdictions, including Hungary, and in some respects, significant progress has been made, there can be no certainty that these reforms will continue or, if continued, will be effective.

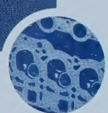
The Company has established a year 2000 compliance steering committee with a Year 2000 Coordinator at each facility. The Company has focused its Year 2000 program on the steps laid out by the AIAG (Automotive Industry Action Group) which is sponsored by GM, Ford, Chrysler, Toyota and Volvo for use by themselves and their suppliers. The Company's steering committee is currently in the process of ensuring that the controls on the manufacturing equipment are updated where needed to address year 2000 issues. The Company's information systems have been reviewed and the areas of risk have been identified and appropriate changes have already been made to the hardware and software upon which the Company primarily relies. In cooperation with its suppliers, the Company has tested 92.0% of its manufacturing controls and is currently checking the balance of its older and more unusual controls. The Company has worked to ensure consistency in its testing procedures by providing all facilities with the manufacturer's recommended testing procedures and by instituting a program of

auditing these procedures through an internal audit. All of the Company's personal computers have been tested. A number of the Company's personal computers have been identified as not being Y2K ready. The Company is in the process of remediating and retesting those which it does not plan to replace prior to the year 2000. None of the Company's products include either computer hardware or software. However, it is not possible to ascertain all aspects of the year 2000 issue, including its effect on customers, suppliers and other third parties. There remains the possibility that these issues may not be resolved before the year 2000.

Based on information available to date, management believes that the year 2000 issue will not have a material impact on the Company's results of operations or financial position.

OTHER

As noted in the accompanying consolidated financial statements, the Company's sales to the United States amounted to $854.5 million. Similarly, many of the Company's raw materials, both forgings and castings, are purchased from the USA. Most of the Company's contracts, both for revenue and expenses, are thus denominated in US dollars. The Company's policy is not to speculate on exchange rates. The Company minimizes the net foreign currency exposure in contracts by negotiating sale contracts, which provide a measure of exchange rate protection, and by entering into forward exchange contracts. These contracts, as described in note 12 to the consolidated financial statements, are designed to protect margins anticipated at the time of the contract award. The Company normally purchases forward contracts monthly for approximately three years to cover the projected exposed US dollar net cash inflow. During the year, General Motors required the Company to convert its US dollar contracts to Canadian dollars. The Company is still currently under some pressure from some of its other US customers to quote future contracts in Canadian funds. As a result, it is expected that the growth in the Company's foreign currency net cash flow will be reduced.



The Company attempts to offset cost increases through a concerted effort in its sales, purchasing and production functions to maximize productivity. In the contract bidding process, economic inflation factors are estimated and applied to the costs. Also, certain of the long-term fixed price contracts have inflation protection clauses.

Internal efficiencies achieved by purchasing and production improvements generally provide moderate inflation protection. Considering current rates of inflation in North America, the Company believes that inflation does not pose a significant risk.

The precision machining segment accounted for approximately 96.0% of the Company's consolidated sales during the year ended December 31, 1998. Approximately 26.1% of the consolidated sales were to customers included in the General Motors group of companies, approximately 8.8% were to Onan Corporation, approximately 8.3% were to Detroit Diesel Corporation and approximately 8.0% were to customers included in the Ford Motor group of companies. Although no single product sold to any of these customers constituted more than 10% of the Company's consolidated sales, the loss of any of these customers or the delay or cancellation of any orders from or production projects for any such customers could have a material adverse effect on the financial condition of the Company.

The Company has been named in lawsuits related to certain employee-related situations. The Company is vigorously defending these actions. It is expected that these may result in immaterial costs to the Company either through settlement payments negotiated by the Company or through the insurance policy deductible payments in the cases that are being handled by the Company's insurers.

While management believes that the Company is in substantial compliance with all material governmental requirements relating to environmental controls on its operations, and carefully investigates environmental risks in its acquisitions, changes in such regulations are ongoing and may make environmental compliance, such as emission control, waste disposal and water quality management, increasingly expensive.

The Company has established an Environmental Committee consisting of senior management. This Committee reviews on an ongoing basis the Company's environmental programs and monitors its compliance with applicable environmental laws. This Committee reports quarterly to the Board of Directors of the Company. The Company also annually engages an independent environmental auditor to review the Company's compliance with applicable environmental requirements. The Company knows of no material environmental liability at this time. Management is not able, however, to predict future costs which may be incurred to meet environmental obligations.


GLOBAL
SYSTEMS
INTEGRATION
a BALANCED APPROACH

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